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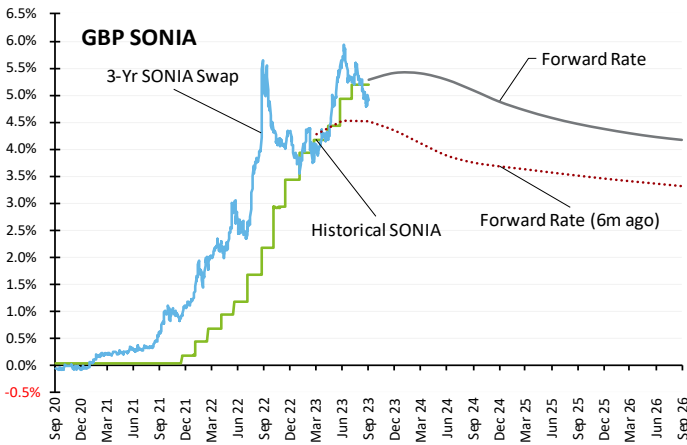
IR and FX Newsletter
October 2023



Interest Rate Markets

Headline CPI readings across the UK, US and Eurozone maintained their downward trajectory, leading to heightened scrutiny ahead of each central bank meeting. The Bank of England (“BOE”) and Federal Reserve (“Fed”) both held rates steady at their meetings in week commencing 18th September; however, it was the latter who offered a ‘hawkish pause’, leading to a ~23bps increase in 3-year SOFR swap rates month-on-month.

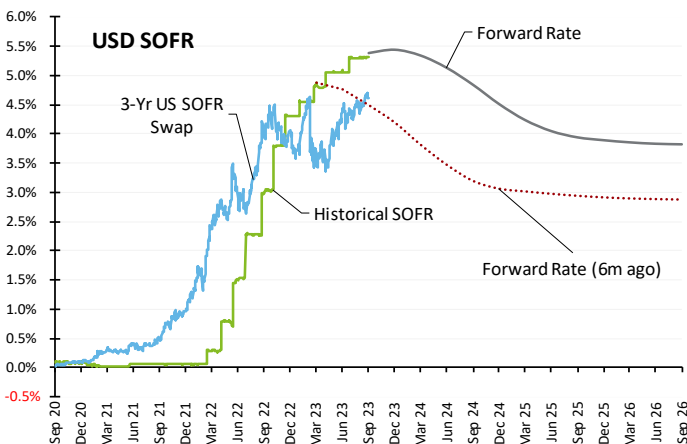
Conversely, the European Central Bank (“ECB”) raised their deposit rate to an all-time high of 4.00% on 14th September, remaining resolute in their battle to bring down price pressures. Broadly speaking, markets are split on additional hikes by the end of the year for each central bank as they anticipate nearing the end of this monetary tightening cycle.



- The underlying SONIA rate is currently at 5.19%
- BOE base rate is at 5.25% following a pause at the BOE’s meeting on 21st September. Markets now slightly favour one final +25bps hike by year-end.
- The 3-year SONIA Swap rate is 4.91%, vs. 3.93% 6 months ago, and down 30bps month-on-month (“MoM”).
- The forward curve remains downward sloping from Q2 2024.

	2-year	3-year	5-year
Swap rate (mid level)	5.15%	4.91%	4.57%
Cap @ 6.0% (premium)*	£0.34m	£0.74m	£1.59m
Cap @ 7.0% (premium)*	£0.18m	£0.44m	£1.0m

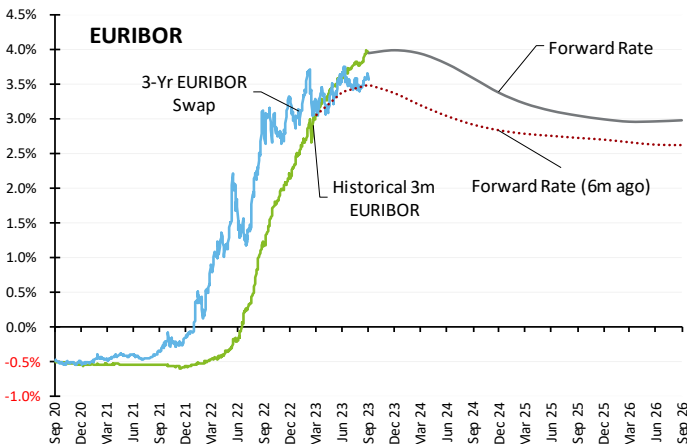
*£100m hedge notional



- SOFR is currently 5.31%, inside the Fed Funds target rate range of 5.25%-5.50%.
- The Federal Reserve held rates at their meeting on 20th September, whilst markets are split 50-50 between a hold and a further 25bps increase by year-end.
- The 3-year SOFR Swap rate is 4.61%, vs. 3.45% 6m ago, and up 23bps MoM.
- The forward curve is steeply inverted from Q2 2024.

	2-year	3-year	5-year
Swap rate (mid level)	4.94%	4.61%	4.33%
Cap @ 5.50% (premium)*	\$0.41m	\$0.70m	\$1.58m
Cap @ 6.00% (premium)*	\$0.21m	\$0.42m	\$1.15m

*\$100m hedge notional

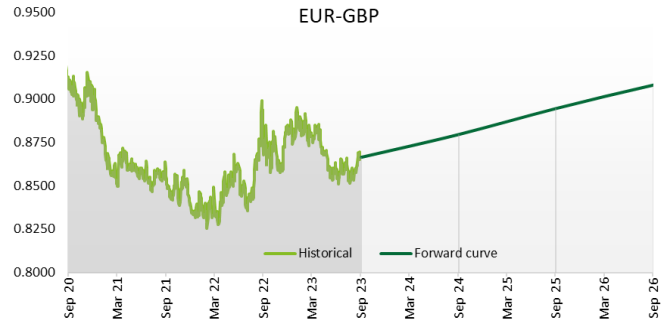
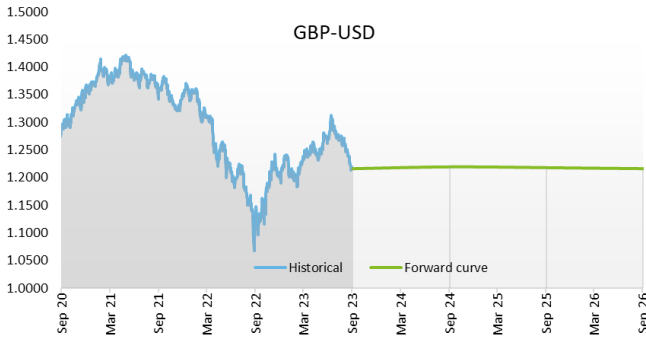


- 3-month EURIBOR is 3.95%, up 15bps MoM.
- The ECB hiked rates by 25bps on 14th September, taking their deposit rate to a record high of 4.00%. Markets are now giving a c. 32% chance of a further +25bps increase by the end of the year.
- The 3-year EURIBOR Swap rate is currently 3.57%, vs. 3.13% 6 months ago.
- The forward curve is inverted from Q2 2024.

	2-year	3-year	5-year
Swap rate (mid level)	3.79%	3.57%	3.40%
Cap @ 4.0% (premium)*	€0.31m	€0.65m	€1.55m
Cap @ 5.0% (premium)*	€0.09m	€0.27m	€0.83m

*€100m hedge notional

Currency Markets



- GBP-USD fell over 3% month-on-month amid the prospect of lower UK rates and an outperforming US economy. Selling GBP / buying USD one-year forward now results in a pickup of c. 25pips; levels not seen since May 2023.
- Option premia fell between 2-8% depending on the level of protection, as falling rate expectations were reflected in a drop in volatility levels.
- Forward FX rates are now higher out through 5 years for GBP sellers, demonstrating a higher-for-longer rate environment in the US.

- EUR-GBP increased by just over 1% MoM as markets accounted for an ECB rate hike / Bank of England pause.
- The cost of hedging via options for EUR-GBP has continued to fall significantly, between 9-15%, depending on the level of protection sought; see the grid below.
- FX forward rates flattened slightly in September, as markets have brought in their expectations of rate hikes from the Bank of England.

GBP-USD Spot Rate: 1.220	6mo	12mo	18mo
Forward rate	1.221	1.221	1.221
GBP Put Option* (ATMS**)	\$2.78m	\$4.00m	\$4.96m
GBP Put Option* (5% OTMS***)	\$0.98m	\$2.04m	\$2.91m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.220		
*** 5% Out-of-the-money vs Spot rate:	1.159		

EUR-GBP Spot Rate: 0.867	6mo	12mo	18mo	24mo
Forward rate	0.873	0.880	0.887	0.893
GBP Put Option* (ATMS**)	€2.26m	€3.66m	€4.85m	
GBP Put Option* (5% OTMS***)	€0.50m	€1.39m	€2.31m	
* GBP 100m Put option premium				
** At-the-money Spot rate:	0.867			
*** 5% Out-of-the-money vs Spot rate:	0.910			

Data source: Refinitiv and ICE Data Services, as of 29th September 2023

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